

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

**ASSIST AUDIT OF THE MANAGEMENT
OF ASSETS RETURNED FROM SOUTHWEST ASIA**

Report Number 93-010

October 21, 1992

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Department of Defense

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
NO. 93-010

October 21, 1992

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Assist Audit of the Management of Assets Returned from Southwest Asia (Project No. 2LD-1001)

Introduction

This is our final report for your information and use. The audit was done in response to a request from the Army Audit Agency. The primary objectives of this assist audit were to determine if Army inventory managers had visibility over Army assets that were returned from Southwest Asia and to determine if inventory managers took adequate actions to adjust procurement quantities based on canceled requisitions and assets returned from Southwest Asia.

In October 1991, because of the vast amount of materiel being returned from Southwest Asia, the Under Secretary of the Army requested the Army Audit Agency to review procedures and controls for Army assets being returned from Southwest Asia and to assist in reestablishing accountability. A significant portion of the cargo containers (SEAVANS) returned from Southwest Asia was returned to Defense Logistics Agency (DLA) managed supply depots; and over 180,000 Operation Desert Storm requisitions, submitted to Army and DLA inventory managers had to be canceled. Because IG, DoD, had audit jurisdiction over DLA activities, the Army Audit Agency requested the IG, DoD, to assist in the audit effort. Our audit was to determine whether:

- o materiel offloaded from SEAVANS was recorded at the receiving activities and properly reported to Army inventory managers,
- o materiel sent to DoD storage depots was offloaded promptly and SEAVANS availability was reported promptly,
- o controls over disposal actions for returned materiel were adequate, and
- o cancellations of open Operation Desert Storm requisitions were processed properly and procurement quantities were adjusted as necessary by DLA inventory managers.

Audit Results

There were significant differences between physical inventories at the Defense Distribution Region West, (DDRW) Sharpe Facility, and assets on the records of Army inventory managers. In addition, not all materiel receipt transactions for returns from Southwest Asia were recorded on the Army inventory managers' records. It took an average of 7 days to offload the SEAVANS, and their availability was promptly reported to the

commercial carriers and to the Military Transportation Management Command after offloading. Controls over disposal of returned materiel were adequate, and DLA inventory managers took appropriate actions for canceled requisitions.

Scope of Audit

We performed physical inventories for 89 selected line items at DDRW and compared the quantities counted with the balances shown on the depot facility and inventory managers' records. To reconcile imbalances, we reviewed transaction histories from both the depot facility and the inventory managers. Our inventories of 89 sampled stock items were valued at \$93.9 million and were applicable to three Army inventory managers. We took our inventories during December 1991 and January 1992. We also compared records of materiel return transactions at DDRW with transactions recorded at the Defense Automatic Addressing System Office and with the three Army inventory managers' records. In addition, we reviewed disposal procedures for returned materiel at DDRW and performed a review of records and a physical walk-through of the materiel holding areas at the Defense Reutilization and Marketing Office, Stockton, California.

To determine whether materiel was offloaded promptly and SEAVANS availability was reported, we reviewed DDRW's SEAVANS report data, which showed the number of SEAVANS processed since hostilities ended in Southwest Asia. We also reviewed reporting procedures for offloaded SEAVANS. As of March 30, 1992, 6,691 SEAVANS had been received at the DDRW Sharp and Tracy Facilities. To determine if requisitions from Operation Desert Storm were canceled and if appropriate action was taken to reduce procurement quantities, we reviewed 247 requisitions, valued at \$265.7 million, for which the Army Logistics Control Activity submitted cancellation requests to DLA inventory managers.

This economy and efficiency audit was made from November 1991 through March 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD, and accordingly included such tests of internal controls as were considered necessary. The sampling methodology is shown in Enclosure 1. The activities visited or contacted during the audit are listed in Enclosure 7.

Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not effective to ensure that all materiel returns were recorded on wholesale managers' records and that proper supervision existed over the process of adjusting inventory records. All recommendations in this report, if implemented, will correct the weaknesses. The monetary benefits to be realized by implementing Recommendations 3. and 4. are \$25.3 million (Enclosure 6). Copies of the final report are being provided to the senior officials responsible for internal controls within the Department of the Army and DLA.

Background

Because of the short duration of hostilities in the Persian Gulf, there was a drastic reduction in materiel requirements. Materiel in the transportation pipeline and positioned in Southwest Asia was no longer required and had to be returned to the wholesale supply system. Inventory managers needed information to identify materiel returned from Southwest Asia to ensure that the materiel was recorded on the wholesale supply records and to make reasonable decisions in forecasting and filling requirements.

DLA Headquarters, in conjunction with the Army Materiel Command, issued special instructions for identifying and recording materiel returned from Southwest Asia. The instructions, issued in a July 1991 message, required that materiel return transactions be coded with document identifier code (DIC) D6Z and management code N. If the materiel return transaction had been previously identified in the receiving depot facility records with a pre-positioned materiel receipt document, the coding on the pre-positioned materiel receipt document would be used to identify the materiel return transaction. DDRW, Sharpe Facility, designated as a primary receiving point for materiel returned from Southwest Asia, stores about 210,000 line items valued at about \$1.3 billion.

The Army Logistics Control Activity maintains the Army Logistics Intelligence File, which identifies Army requisitions submitted to DoD supply sources, and subsequent supply and shipment status provided by the supply sources. This file, in addition to being used as a logistics measurement device, is also used to monitor outstanding requisitions. As of September 1991, the file records indicated that about 91,000 Operation Desert Storm requisitions were still outstanding, although cancellations had been initiated. The Army Audit Agency selected 300 open requisition documents submitted to DLA inventory managers from that universe for our review.

Ongoing and Completed Audits

The IG, DoD, issued quick-reaction Report No. 92-027, "Army's Adjustment of Wholesale Inventory Levels After Operation Desert Storm," December 19, 1991, which reported that some Army requirements forecasts were not adequately adjusted to exclude Operation Desert Storm demands from wholesale inventories. The report identified a one-time reduction of \$14 million and requested that the Army issue specific guidance for reviewing purchase requests to identify further potential reductions. The Army concurred and agreed to \$9.8 million in requirement reductions. The IG, DoD, also issued Report No. 92-033, "Defense Logistics Agency's Adjustment of Wholesale Inventory Levels After Operation Desert Storm," January 10, 1992, which showed that about \$19.2 million in purchases, for 18 DLA managed items, were excessive to forecasted peacetime requirements. DLA partially concurred with our recommendation to reforecast requirements for items affected by Operation Desert Storm demands and agreed to provide clarification guidance and restate the need to reduce or cancel excessive requirements.

On July 28, 1992, the General Accounting Office (GAO) issued a draft audit report entitled "Operation Desert Storm: Accountability Over Materiel Did Not Exist During Redeployment" (OSD Case No. 9152). GAO focused on how the materiel deployed from Operation Desert Storm was safeguarded and accounted for, and whether it was returned to the wholesale supply system once redeployed. GAO found that accountability and asset visibility were lost during the deployment stage, with shipping documents often not describing the contents or destination of the shipment and that materiel often did not reach designated units because no procedures were established to document the arrival of supplies and, in most cases units were not notified when materiel arrived in theater. During redeployment, asset accountability and visibility were not established because of the desire to leave Southwest Asia quickly. Many units did not inventory materiel before packing it and did not prepare the documents necessary to identify container contents. Additionally, receiving depots in the United States were not given basic information about the containers being sent to them, thus the depots were not able to control the flow of materiel. GAO concluded that because the returning materiel was not visible to the supply system until it was received, inventoried, and recorded, purchases for items being returned could have occurred.

Discussion

On-hand inventory balances at DDRW, Sharpe Facility, did not agree with balances recorded on the inventory managers' supply records. Our physical inventory of 89 sampled line items at the DDRW, Sharpe Facility showed that on-hand balances exceeded amounts recorded on the inventory managers' records in 42 cases (47 percent), totaling \$9.4 million. Balances on hand were less than amounts recorded in 24 cases (27 percent), totaling \$4.4 million. This condition occurred because not all materiel returned from Southwest Asia was reported to the inventory managers; the lack of resources prevented a more comprehensive physical inventory program; and adequate internal controls did not exist over the inventory adjustment process. As a result, stock on hand may not be considered in future requirements computations, and customer supply support could be adversely affected by warehouse denials.

Materiel Accountability

Inventory managers' records should be accurate because management decisions to fill customers' requirements and to procure, repair, or dispose of inventory are based on those records. The 89 line items that we inventoried and reconciled were managed by three Army inventory managers: the Aviation Systems Command (AVSCOM), St. Louis, Missouri; the Communications and Electronics Command (CECOM), Fort Monmouth, New Jersey; and the Tank-Automotive Command (TACOM), Warren, Michigan. DDRW officials attributed the inventory discrepancies, in part, to the fast pace of operations associated with processing materiel returned from Southwest Asia and a lack of resources to accommodate a more comprehensive inventory program. A summary of our inventory results is shown in Enclosure 2.

Counts versus inventory managers' records. Our inventory results, based on physical counts of about \$93.9 million in inventory, and a comparison of the DDRW, Sharpe Facility transaction history records with those maintained by AVSCOM, CECOM, and TACOM showed that 66 of the 89 items had inventory discrepancies. The records of the inventory managers were understated in 42 cases for a total understatement of assets on hand of \$9.4 million (10 percent). In another 24 cases, the inventory managers' records were overstated by \$4.4 million (5 percent). The remaining 23 cases reconciled. For 44 of the 66 discrepant items, the value of the physical inventory differences exceeded \$16,000. DoD Manual 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures," requires causative research for physical inventory adjustments exceeding \$16,000. The 44 items and inventory differences are listed in Enclosure 3. An example of the inventory discrepancies is discussed below.

Our December 11, 1991, inventory of lithium batteries, national stock number (NSN) 6135-01-036-3495, managed by CECOM, showed a total of 75,429 batteries on hand. The balance on CECOM records showed a total of 43,768, and the balance on the DDRW, Sharpe Facility records was 46,494. The difference equated to a value of \$1.89 million (75,429 minus 43,768 times unit price of \$59.63). In December, we referred the discrepancy to DDRW, Sharpe Facility personnel for resolution. We were informed that the imbalance resulted when a load of batteries, returned from Southwest Asia, was not recorded and reported to CECOM.

In January 1992, we followed up on the stock imbalance for the lithium batteries. DDRW had incorrectly processed inventory adjustments, affecting only the DDRW, Sharpe Facility records and a series of receipt transactions that were recorded locally and transmitted to the inventory manager. The transactions were directed by an inventory taker without

supervisory oversight or documentary support. After these transactions were processed, the DDRW, Sharpe Facility records showed a balance of 78,649 units, and the CECOM records showed a balance of 107,473 units, a difference of 28,824 units.

Counts versus Sharpe Facility records. Our inventory results, which were based on physical counts for 89 items and a comparison of the transaction history records maintained by the DDRW, Sharpe Facility, showed that depot records were understated in 36 cases, totaling \$7.5 million and overstated in 27 cases, totaling \$5.1 million. The remaining 26 cases reconciled. Details were provided to DDRW officials.

Materiel Returns

During the 9-month period ended January 1992, DDRW, Sharpe Facility personnel processed 96,226 materiel returns from Southwest Asia, with a DIC D6Z management code N. For the 80 items with D6Z transactions of the 150 sample items provided by the Army Audit Agency, we verified whether all D6Z transactions were processed and accounted for on the Army inventory managers' asset records. A total of 1,548 D6Z transactions, valued at about \$38 million, were shown on the DDRW, Sharpe Facility transaction history records for the 80 stock items as of January 23, 1992. However, 109 of the 1,548 D6Z transactions, valued at about \$1.7 million (4.5 percent), were not recorded on the Army inventory managers' records. A summary of the D6Z transactions that were not processed is shown in Enclosure 4.

Duplicate transactions. Twenty seven of the 109 transactions not processed were rejected at the inventory manager activities because they were identified as duplicates of transactions previously processed. However, the transactions were valid receipts and should have been processed by the applicable inventory managers. For example, our review of the DDRW, Sharpe Facility transaction history for a track shoe assembly (NSN 2530-01-226-0555), showed that a D6Z transaction for 100 assemblies was processed on August 22, 1991. On September 4, 1991, another D6Z transaction for 100 assemblies was processed under the same document number used on the August 22, 1991, transaction. Documentation accompanying the returned materiel, if available, was used to assign document numbers for return transactions. Army personnel told us that data processing system logic in the Army's Commodity Command Standard System is programmed to reject apparent duplicate transactions with a reject code that does not require item managers' research and follow-up actions.

Dual managed item. Twenty four of the 109 transactions not processed were not recorded by the inventory manager, CECOM, because a CECOM automated program erroneously rerouted receipt transactions to a DLA inventory manager, the Defense General Supply Center (DGSC), Richmond, Virginia. The applicable item was managed by both CECOM and DGSC. The CECOM managed item, NSN 6135-00-930-0030, is the military version of the DGSC managed NSN 6135-00-835-7210, nonrechargeable battery; and CECOM did not transfer the Army-owned inventory to DGSC. The CECOM automated program was intended to reroute incoming requisitions to DGSC, if CECOM managed assets were not available. Receipt transactions should not have been rerouted. The Defense Automated Addressing System records showed that 24 D6Z transactions, valued at \$142,985, for the CECOM managed item were reported to DGSC, understating CECOM's records and overstating DGSC's records by that amount. Corrective actions to the automated program were taken at CECOM.

Transactions not processed. Our review of the Defense Automatic Addressing System records showed no evidence that the remaining 58 transactions were processed. We interviewed personnel in the DDRW, Office of Telecommunications and Information Services and DDRW, Sharpe Facility personnel in the Systems Management Branch of the Directorate

of Distribution but were not provided reasons why these transactions were not processed. We believe one possible cause was conversion problems in the new data systems. The DDRW, Sharpe Facility, which came under DLA management in April 1990, was one of the prototype depots in DDRW using the new Defense Distribution System as part of the Depot Consolidation Program under Defense Management Report Decision 902. After completion of our audit work, the Army Area-Oriented Depot System was selected as the standard distribution system to be implemented at Defense depots.

We expanded our review to include all D6Z materiel receipt transactions, management code N, processed by the DDRW, Sharpe Facility. The DDRW, Office of Telecommunications and Information Services, provided us a tape extract of the Sharpe Facility transaction history data base for the period May 1991 through January 1992, which showed that 79,649 D6Z transactions were processed. We compared the information provided for the Sharpe Facility with information provided by the Defense Automatic Addressing System office and found that 5,529 D6Z transactions, valued at \$31 million, did not process through the Defense Automatic Addressing System to the applicable inventory managers. Of the 5,529 D6Z transactions, 3,038 transactions, valued at about \$29.1 million, were for materiel managed by Army inventory managers, including 1,429 transactions, valued at about \$22.6 million, for the three Army inventory managers (AVSCOM, CECOM, and TACOM) in our audit.

We performed tests to determine whether the unmatched D6Z transactions were recorded on the inventory managers' records. At AVSCOM, CECOM, and TACOM, we researched all unmatched D6Z transactions with an extended value of \$100,000 or more. For the 26 D6Z transactions in this category, valued at \$16.9 million, 8, valued at \$1.4 million (8.3 percent), were found on the inventory managers' records. Of the eight recorded transactions, two were entered on the records by manual adjustments; there was no indication of how the remaining six transactions were reported to the inventory managers. The remaining 18 transactions, valued at \$15.5 million (91.7 percent) were not recorded on the inventory managers' records. Our review of the inventory managers' stock status data for the 16 NSNs in this category disclosed that assets valued at \$14.7 million (87 percent) were needed to satisfy current requirements, that is, existing assets were below the approved force acquisition objective, procurement actions were in process, and there were backordered customer requisitions. Based on our tests, we estimated that understated assets at the Army inventory managers totaled about \$26.7 million (\$29.1 million times 91.7 percent) because of unrecorded materiel return receipt transactions and that \$25.3 million (\$29.1 million times 87 percent) could be used to satisfy supply system requirements.

Other Matters of Interest

Three other objectives in our audit were to determine whether SEAVANS were offloaded and reported promptly to keep detention charges to a minimum; whether open Army requisitions for Operation Desert Storm, submitted to DLA supply sources, were canceled and appropriate action was taken to reduce procurement quantities; and whether adequate procedures existed to monitor disposals of assets returned from Southwest Asia. Conditions found in these areas were satisfactory, and details of our review are contained in Enclosure 5.

Recommendations

1. We recommend that the Director, Defense Logistics Agency and the Commander, Army Materiel Command, reconcile stock record balances and do causative research for the 44 line items shown in Enclosure 3 with stock imbalances greater than \$16,000.

2. We recommend that the Commander, Defense Distribution Region West, require supervisory oversight over inventory adjustments to ensure that adjustments are done in accordance with established procedures.

3. We recommend that the Director, Defense Logistics Agency and the Commander, Army Materiel Command, reconcile the Defense Depot Region West, Sharpe Facility's and inventory managers' receipt transactions for materiel returns, process all unrecorded materiel transactions, and determine why the transactions were not recorded on the wholesale managers' records.

4. We recommend that the Commander, Army Materiel Command, ensure that Army inventory managers reduce supply system requirements based on materiel receipts for previously unrecorded inventory.

Management Comments

The Army and DLA concurred with Recommendation 1. The Army stated that DDRW conducts quarterly reconciliations of depot custodial records with the inventory control points' accountable records, which identify record imbalances for research and possible physical inventory. DLA stated that the DDRW, Sharpe Facility, reviewed the 89 line items inventoried by the auditors; 60 line items have been reconciled and the remaining 29 line items are under investigation. Research and reconciliation is expected to be completed by December 1992.

DLA concurred with Recommendation 2. and attributed the condition to an isolated incident. DLA stated that facility personnel have been instructed to use standard DLA procedures and supplemental local guidance, including supervisory oversight, for proper inventory adjustment procedures.

The Army and DLA concurred with Recommendation 3. to reconcile receipt transactions for materiel returns and process all unrecorded materiel transactions. The Army stated that DLA and the Army Materiel Command will conduct a Technical Assistance and Operational Review (TAOR) at the DDRW, Sharpe Facility, to evaluate operations and systems to ensure effectiveness, efficiency, and accuracy of records. During the TAOR, all data system output will be monitored to determine if the problem is systematic or a one-time occurrence. A target completion date was not provided. DLA stated that between February and April 1992, the Sharpe Facility conducted wall-to-wall location surveys to correct inaccuracies in locator file records. A location reconciliation with inventory managers is scheduled for completion in October 1992. The location reconciliation audit will require research and physical inventories of imbalances between the Sharpe Facility and the inventory managers' records. Any unrecorded transactions not corrected previously will be processed. A target completion date can not be determined until the volume of physical inventories required by the location reconciliation is identified. The Army and DLA disagreed with the part of the recommendation to determine why the receipt transactions were not posted to the inventory managers' records. Their disagreement was based on cost and feasibility of researching the transactions analyzed by the auditors and the corrective actions already taken and in process, in response to all audit recommendations.

The Army concurred with Recommendation 4. It stated that as DDRW, Sharpe Facility's custodial records are reconciled with the inventory control points' accountable records, the inventory control points' automated system will adjust requirements based on gains to the on-hand balance. Complete texts of the Army and DLA responses to the draft report, without attachments, are in Enclosure 8 and Enclosure 9, respectively.

Corrective actions taken and planned are responsive to the recommendations. However, we request that the Army provide an estimated completion date for the TAOR at the DDRW, Sharpe Facility, and the review results. We also request that DLA provide an estimated completion date for the physical inventories and correction of the Sharpe Facility and inventory managers' imbalances cited in response to Recommendation 3. Further, we request comments from the Army and DLA on the estimated monetary benefits associated with Recommendations 3. and 4. If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. All comments must be provided by December 21, 1992.

The courtesies extended to the audit staff are appreciated. Audit team members are listed in Enclosure 10. If you have any questions on this audit, please contact Mr. Charles Hoeger, Program Director, or Mr. Pat Golden, Project Manager, at (215) 737-3881 (DSN 444-3881). The distribution of this report is listed in Enclosure 11.


Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc: Secretary of the Army

AUDIT SAMPLING METHODOLOGY

Inventory Tests

The Army Audit Agency provided us with a sample of 150 line items for review at the DDRW, Sharpe Facility. The items were judgmentally selected by the Army Audit Agency and 50 were selected from each of three Army inventory managers: AVSCOM, CECOM, and TACOM. These three inventory managers were selected because they provided the largest quantities and dollar value of wholesale stock to the forces in Southwest Asia. For each inventory manager, the 50 items were selected based on the largest quantity and highest dollar value shipped to Southwest Asia and the planned procurement or maintenance actions for those items in fiscal year 1992 or 1993. For each inventory manager, 35 repairable items and 15 consumable items were selected. IG, DoD, auditors also selected 25 items at DDRW, Sharpe Facility, in a reverse sample. Of the 175 items, 89 items had D6Z materiel return transactions and assets on hand, recorded on the DDRW, Sharpe Facility, records.

Cancellation Requests

In April 1991, the Army Logistics Control Activity initiated two mass cancellation actions for a total of 181,388 requisitions for Southwest Asia. The requisitions were identified as open on its Logistics Intelligence File. As of September 20, 1991, the file showed that only 90,419 requisitions were confirmed as canceled. The Army Audit Agency identified the remaining 90,969 actions to the sources of supply. Of the 192 sources of supply identified, 6 accounted for 47,729 (53 percent) requisitions. The six sources of supply were three Army inventory managers (AVSCOM, CECOM, and TACOM) and three DLA inventory managers (DGSC, the Defense Personnel Support Center [DPSC], Philadelphia, Pennsylvania; and the Defense Construction Supply Center [DCSC], Columbus, Ohio). From the 47,729 requisitions, 375 were selected for review to determine if appropriate cancellation actions had been taken by the inventory managers. The 375 requisitions were selected from the 6 sources as follows:

- o 25 each, with the highest dollar value, from the three Army inventory managers and
- o 100 each, with the highest dollar value, from the three DLA inventory managers.

IG, DoD, auditors reviewed the 300 requisitions submitted to the DLA inventory managers.

INVENTORY RESULTS

Physical Inventory Counts Versus Inventory Managers' Records

Inventory <u>Manager</u>	Line Items <u>Counted</u>	Line Items <u>Over 1/</u>	Value	Line Items <u>Under</u>	Value
AVSCOM	21	7	\$2,419,904	6	(\$1,548,494)
CECOM	23	12	3,405,226	4	(1,667,724)
TACOM	45	23	3,533,099	14	(1,146,744)
Total	<u>89</u>	<u>42</u>	<u>\$9,358,229</u>	<u>24</u>	<u>(\$4,362,962)</u>

Physical Inventory Counts Versus Sharpe Facility Records

Inventory <u>Manager</u>	Line Items <u>Counted</u>	Line Items <u>Over 2/</u>	Value	Line Items <u>Under</u>	Value
AVSCOM	21	5	\$1,445,464	9	(\$2,180,048)
CECOM	23	12	2,948,963	3	(1,378,863)
TACOM	45	19	3,146,535	15	(1,542,503)
Total	<u>89</u>	<u>36</u>	<u>\$7,540,962</u>	<u>27</u>	<u>(\$5,101,414)</u>

1/ On-hand balances, as determined by a physical inventory count, exceeded amounts recorded on inventory managers' records.

2/ On-hand balances, as determined by a physical inventory count, exceeded amounts recorded on Sharpe Facility records.

PHYSICAL INVENTORY DIFFERENCES EXCEEDING \$16,000

AVSCOM Managed Items

National <u>Stock Number</u>	<u>Unit Price</u>	<u>Physical Inventory</u>	Inventory <u>Manager Records</u>	Facility <u>Records</u>	Difference	
					<u>Items</u>	<u>Value</u>
1560-01-054-7971	\$48,652.00	14	15	15	-1	(\$48,652.00)
1615-01-014-6006	163,107.00	8	4	5	4	652,428.00
1615-01-106-1903	63,886.00	31	16	17	15	958,290.00
1615-01-145-7109	52,996.00	0	27	27	-27	(1,430,892.00)
1615-01-145-7110	53,096.00	14	13	13	1	53,096.00
1615-01-289-2694	51,082.00	15	16	16	-1	(51,082.00)
1650-01-279-4703	59,991.00	1	0	1	1	59,991.00
1680-00-183-0834	85,932.00	8	0	11	8	687,456.00

CECOM Managed Items

National <u>Stock Number</u>	<u>Unit Price</u>	<u>Physical Inventory</u>	Inventory <u>Manager Records</u>	Facility <u>Records</u>	Difference	
					<u>Items</u>	<u>Value</u>
5821-01-194-8160	\$8,194.00	9	17	17	-8	(\$65,552.00)
5835-01-203-0450	410.00	2,793	2,659	2,677	134	54,940.00
5841-01-063-1918	23,919.00	7	2	2	5	119,595.00
5855-00-138-2386	1,766.00	5,262	4,843	4,922	419	739,954.00
5855-01-034-3845	1,306.00	7,104	7,967	7,992	-863	(1,127,078.00)
5965-00-043-3463	46.47	45,786	48,607	49,091	-2,821	(131,091.87)
5985-00-985-9024	215.00	22,932	22,070	22,508	862	185,330.00
6135-00-450-3528	31.88	15,959	11,393	9,343	4,566	145,564.08
6135-00-930-0030	10.13	14,876	0	14,421	14,876	150,693.88
6135-01-034-2239	44.48	73,507	71,690	71,690	1,817	80,820.16
6135-01-036-3495	59.63	75,429	43,768	46,494	31,661	1,887,945.43
6135-01-088-2708	38.20	8,598	8,164	8,164	434	16,578.80
6135-01-090-5365	5.13	281,413	348,470	273,422	-67,057	(344,002.41)

PHYSICAL INVENTORY DIFFERENCES EXCEEDING \$16,000 (cont'd.)TACOM Managed Items

National <u>Stock Number</u>	Unit Price	Physical <u>Inventory</u>	Inventory	Facility <u>Records</u>	Difference	
			Manager <u>Records</u>		Items	Value
2510-01-179-9181	\$979.00	158	181	181	-23	(\$22,517.00)
2520-01-093-5841	6,600.00	22	6	46	16	105,600.00
2520-01-117-3010	9,879.00	112	82	80	30	296,370.00
2520-01-161-2136	1,203.00	356	394	401	-38	(45,714.00)
2520-01-163-4999	901.00	489	978	970	-489	(440,589.00)
2520-01-274-6449	101,292.00	103	104	104	-1	(101,292.00)
2530-00-150-5897	123.00	10,621	9,818	6,554	803	98,769.00
2530-01-226-0555	979.00	2,696	1,127	1,127	1,569	1,536,051.00
2540-00-587-2532	126.00	2,741	1,963	1,973	778	98,028.00
2610-00-262-8653	176.00	1,680	0	885	1,680	295,680.00
2610-01-148-1634	71.39	10,956	8,024	10,643	2,932	209,315.48
2610-01-171-4746	120.00	9,635	7,062	8,024	2,573	308,760.00
2815-01-111-2262	14,372.00	14	6	14	8	114,976.00
2815-01-214-8820	14,352.00	326	332	332	-6	(86,112.00)
2815-01-289-2961	12,307.00	68	66	68	2	24,614.00
2815-01-295-7458	12,510.00	70	73	69	-3	(37,530.00)
2835-01-197-8325	13,549.00	0	6	6	-6	(81,294.00)
2910-00-116-8241	2,543.00	66	115	115	-49	(124,607.00)
2910-01-293-7131	12,894.00	37	21	38	16	206,304.00
2920-00-909-2483	322.00	6,733	6,409	6,397	324	104,328.00
3020-01-065-6209	424.00	105	61	62	44	18,656.00
6110-01-292-6532	109.00	12,562	12,038	12,035	524	57,116.00
6140-01-210-1964	137.00	62,766	64,147	63,818	-1,381	(189,197.00)

PROCESSING OF D6Z TRANSACTIONS

<u>Wholesale Manager</u>	<u>Processed at Sharpe</u>	<u>Processed and Recorded by Inventory Managers</u>	<u>Not Recorded by Inventory Managers</u>
			<u>Records</u> <u>Value</u>
AVSCOM	57	55	2 \$ 322,191
TACOM	396	351	45 240,936
CECOM	1,095	1,033	62 1,139,283
Total	<u>1,548</u>	<u>1,439</u>	<u>109</u> <u>\$1,702,410</u>

The 1,548 D6Z transactions were processed against 80 NSNs: 18 managed by AVSCOM, 21 managed by CECOM, and 41 managed by TACOM.

OTHER MATTERS OF INTEREST

Offloading SEAVANS

An objective of the audit was to determine whether materiel sent to the depot facilities was offloaded promptly and whether SEAVANS availability was reported promptly. DDRW, Sharpe and Tracy Facilities, received a total of 6,691 SEAVANS as of March 30, 1992. Of the 6,691 SEAVANS, 6,229 were offloaded and 407 were transshipped to other DoD depots. For the remaining 55 SEAVANS, 23 were awaiting offloading and 32 were awaiting transshipments to other depots. Our review of offloading data for 2,507 SEAVANS, taken from lists maintained by Sharpe and Tracy Facilities, showed that it took an average of 7 days to offload the SEAVANS. After being offloaded, the SEAVANS were reported each day as available to the commercial carriers and to the Military Transportation Management Command (the Command), Oakland, California, by way of a facsimile message and a telephone call. The Command was responsible for certifying commercial carrier bills for SEAVANS detention charges. We concluded that procedures and controls at DDRW were satisfactory for prompt offloading and reporting of SEAVANS availability.

Operation Desert Storm Requisitions

An objective of the audit was to determine whether canceled requisitions were processed properly by DLA inventory managers and whether procurement quantities were adjusted as necessary. The Army Audit Agency provided a sample of 300 requisitions identified as open requisitions on the Logistics Intelligence File of the Army Logistics Control Activity, Presidio, California. The sample was taken from 90,969 records on file for which cancellations were requested but were not confirmed as canceled. From the sample of 300 and excluding duplicates, we reviewed 247 requisitions, valued at about \$266 million, at DGSC, DPSC, and DCSC. Based on total requisition values we found that 18 percent had been filled before the date of the cancellation requests and that the remaining 82 percent had been either passed to other inventory managers, previously rejected, or canceled based on the Army requisition cancellation requests. At DPSC, 33 of the requisitions were totally canceled. Of the related NSNs, 15 had contracts awarded after the date of the requisitions. In all 15 cases, the quantities on the requisitions had no effect on quantities on order under the applicable contracts. In one case, noted at DCSC, there were outstanding procurements totaling \$11.7 million. The procurement actions were identified in IG, DoD, Report No. 92-033, "Defense Logistics Agency's Adjustments of Wholesale Inventory Levels After Operation Desert Storm," January 10, 1992, and \$7.1 million of the procurements were canceled. Excepted as noted above, we concluded that procedures and controls at the DLA inventory managers were satisfactory for processing canceled requisitions and additional recommendations were not necessary.

OTHER MATTERS OF INTEREST (cont'd.)Disposal of Assets

An objective of the audit was to determine whether controls over the disposal of returned materiel were adequate. In addition to standard DoD disposal procedures, a DLA message of July 26, 1991, required that DIC D6Z, management code T or E, be used to identify Southwest Asia disposal actions. A review of the transaction history files for 80 NSNs in our sample showed disposal actions for condemned materiel only. A physical walk-through of the materiel holding areas at the Defense Reutilization and Marketing Office (DRMO), Stockton, California, and a review of DRMO's inventory records did not disclose any unusual volume of disposal actions on materiel returned from Southwest Asia. We determined that controls over disposals of materiel returned from Southwest Asia were satisfactory.

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
1.	<u>Internal Control</u> . Reconcile out-of-balance inventories.	<u>Nonmonetary</u> .
2.	<u>Internal Control</u> . Control the process of making inventory adjustments.	<u>Nonmonetary</u> .
3. and 4.	<u>Economy and Efficiency</u> . Process unrecorded materiel receipt transactions and reduce requirements for recovered assets.	<u>Funds Put to Better Use</u> . One-time savings are estimated at \$25.3 million.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Army Materiel Command, Alexandria, VA

Army Aviation Systems Command, St. Louis, MO

Army Communications and Electronics Systems Command, Fort Monmouth, NJ

Army Tank-Automotive Command, Warren, MI

Army Audit Agency, Washington, DC

Army Audit Agency, Northeast Region, Philadelphia, PA

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, VA

Defense Automatic Addressing Systems Office, Dayton, OH

Defense Construction Supply Center, Columbus, OH

Defense Distribution Region East, New Cumberland, PA

Defense Distribution Region West, Stockton, CA

 Defense Distribution Depot - Sharpe Facility

 Defense Distribution Depot - Tracy Facility

Defense Electronics Supply Center, Dayton, OH

Defense Personnel Support Center, Philadelphia, PA

Defense Reutilization and Marketing Service, Battle Creek, MI

 Defense Reutilization and Marketing Office, Stockton, CA

Management Comments from the Army Deputy Chief of Staff for Logistics, Director of Supply and Maintenance



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, DC 20310-0500



DALO-SMP

23 SEP 1992

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS

~~DIRECTOR OF THE ARMY STAFF~~ *Ball* ~~23 Sep~~ *9/26/92* GEORGE P. MONTGOMERY, LTC, GS, AD-S

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: Report on the Assist Audit of the Management of Assets
Returned from Southwest Asia (Project No. 2LD-1001)

1. This is in response to HQDA IG memorandum of 22 July 1992 (Tab A), which asked ODCSLOG to respond to your memorandum of 16 July 1992 (Encl to Tab A). Your memorandum requested review and comments on recommendations of subject report.

2. The Army's comments are as follows:

a. Recommendation 1. That the Director, Defense Logistics Agency (DLA) and the Commander, Army Materiel Command (AMC) reconcile stock record balances and do causative research for the 44 line items shown in Enclosure 3 with stock imbalances greater than \$16,000. Concur with comment. The Defense Distribution Region West (DDRW)/Sharpe conducts a quarterly machine-to-machine reconciliation of the depot custodial record to each national inventory control point (NIPC) accountable record. These reconciliations identify stock record imbalances for research and physical inventory, if necessary, based on Military Standard Transaction Reporting and Accounting Procedures parameters. If the 44 line items represent real record incompatibilities, the reconciliation process will generate mandatory research documents. Any remaining imbalances will be identified and researched using standard operating procedures.

b. Recommendation 2. Responsibility of DLA.

c. Recommendation 3. That the Director, DLA and the Commander, AMC reconcile the DDRW/Sharpe facility's and inventory managers' receipt transactions for materiel returns, process all unrecorded materiel transactions and determine why the transactions were not recorded on the wholesale managers' records. Concur with comment with the recommendation to

Management Comments from the Army Deputy Chief of Staff for Logistics, Director of Supply and Maintenance

DALO-SMP

SUBJECT: Report on the Assist Audit of the Management of Assets
Returned from Southwest Asia (Project No. 2LD-1001)

reconcile accountable transactions and process all unrecorded materiel transactions. DLA and AMC will conduct a Technical Assistance and Operational Review (TAOR) at DDRW/Sharpe. The purpose of the review will be to evaluate operations and systems to ensure effectiveness, efficiency and records accuracy. Nonconcur with comment with the recommendation to determine why the transactions were not recorded on the wholesale managers' records. It is not feasible at this time to try and determine why 5,529 DIC D6Z were not forwarded to the NICPs during the May 91 to Jan 92 timeframe. The auditors interviewed all applicable offices and could not determine the cause of the problem. Additionally, two reconciliations of the depot custodial record with the accountable record have occurred in the interim. Based on existing procedures, mismatched receipt documents should already have been identified, and unprocessed receipts posted to the NICP record to correct the balance. During the TAOR, all output from DSS to DAAS will be monitored to determine if the problem is systemic or a one time occurrence. If the problem still exists, AMC will determine corrective action to be taken.

d. Recommendation 4. That the Commander, AMC require that Army inventory managers reduce supply system requirements based on materiel receipts for previously unrecorded inventory. Concur with comment. As DDRW/Sharpe's custodial records are reconciled with the NICP accountable records, the NICP automated system will adjust requirements based on gains to the on-hand balance.

Encl

JAMES W. BALL
JAMES W. BALL
Major General, GS
Director of Supply
and Maintenance

CF:
SAIG-PA
DALO-RMM

OASA(I,L&E) - Concur, Mr. Croom/75727 (conference)
AMC (AMCLG-MT) - Concur, Mr. Hartzell/274-7691 (memorandum)

Kris Keydel/51059

**Management Comments from the Defense Logistics Agency Chief, Internal Review
Division, Office of Comptroller**



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY
REFERRED DLA-CI

28 SEP 1992

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: DoD IG Draft Report on "Assist Audit of the Management
of Assets Returned from Southwest Asia" (Project No.
2LD-1001), dated 16 Jul 92

This is in response to your 16 July 1992 request. Ms. Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency, has approved these positions.

4 Encl
w/2 Attachments

Jacqueline G. Bryant
JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

cc: DLA-O
DLA-LX

**Management Comments from the Defense Logistics Agency Chief, Internal Review
Division, Office of Comptroller**

TYPE OF REPORT: AUDIT

DATE OF POSITION: 28 Sep 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Assist Audit of the Management of Assets Returned
from Southwest Asia (Project No. 2LD-1001)

FINDING: On-hand inventory balances at DDRW, Sharpe Facility, did not agree with balances recorded on the inventory managers' supply records. Our physical inventory of 89 sampled line items at the DDRW, Sharpe Facility showed that on-hand balances exceeded amounts recorded on the inventory managers' records in 42 (47 percent) cases, totaling \$9.4 million. Balances on hand were less than amounts recorded in 24 (27 percent) cases, totaling \$4.4 million. This condition occurred because not all materiel returned from Southwest Asia was reported to the inventory managers; lack of resources prevented a more comprehensive physical inventory program; and adequate internal controls did not exist over the inventory adjustment process. As a result, stock on hand may not be considered in future requirements computations, and customer supply support could be adversely affected by warehouse denials.

DLA COMMENTS: Concur. See following Recommendation Responses.

DISPOSITION:

(XX) Action is ongoing. Estimated Completion Date: 30 Dec 92
 () Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

() Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
 (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
 () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Shelly Feeley, DLA-OWI, x77244. 11 Sep 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

ENCLOSURE 9

Page 2 of 6

**Management Comments from the Defense Logistics Agency Chief, Internal Review
Division, Office of Comptroller**

TYPE OF REPORT: AUDIT

DATE OF POSITION: 28 Sep 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Assist Audit of the Management of Assets Returned
From Southwest Asia (Project No. 2LD-1001)

RECOMMENDATION 1: We recommend that the Director, Defense Logistics Agency, and the Commander, Army Materiel Command, reconcile stock record balances and do causative research for the 44 line items shown in Enclosure 3 with stock imbalances greater than \$16,000.

DLA COMMENTS: Concur. Sharpe Facility reviewed all of the 89 line items that the DoD IG inventoried, including the 44 line items with stock imbalances greater than \$16,000. Of these line items, Sharpe Facility has reconciled 60 line items and is investigating the remaining 29 line items. The depot expects to have all research and reconciliation completed by December 1992.

DISPOSITION:

(XX) Action is ongoing. Estimated Completion Date: 30 Dec 92
 () Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

() Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
 (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
 () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Shelly Feeley, DLA-OWI, x77244, 11 Sep 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

**Management Comments from the Defense Logistics Agency Chief, Internal Review
Division, Office of Comptroller**

TYPE OF REPORT: AUDIT

DATE OF POSITION: 28 Sep 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Assist Audit of the Management of Assets Returned
From Southwest Asia (Project No. 2LD-1001)

RECOMMENDATION 2: We recommend that the Commander, Defense
Distribution Region West, require supervisory oversight over
inventory adjustments to ensure that adjustments are done in
accordance with established procedures.

DLA COMMENTS: Concur. However, no further action is required.
DLA does have established procedures for ensuring the validity
inventory adjustments. In our view, the audit revealed an isolated
incident in which depot personnel bypassed procedures that included
supervisory oversight and, thus, made erroneous inventory
adjustments. Depot personnel have been instructed to use DLAM
4140.2, Volume III (see Attachment No. 1), and supplemental local
office procedures which provide additional instruction in following
proper inventory adjustment procedures.

DISPOSITION:

Action is ongoing. Estimated Completion Date
 Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

Nonconcur. (Rationale must be documented and maintained with
your copy of the response.)
 Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of
the response.)
 Concur; weakness is material and will be reported in the DLA
Annual Statement of Assurance.

ACTION OFFICER: Shelly Feeley, DLA-OWI, x77244, 11 & 28 Sep 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

ENCLOSURE 9

Page 4 of 6

**Management Comments from the Defense Logistics Agency Chief, Internal Review
Division, Office of Comptroller**

TYPE OF REPORT: AUDIT

DATE OF POSITION: 28 Sep 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Assist Audit of the Management of Assets Returned
From Southwest Asia (Project No. 2LD-1001)

RECOMMENDATION 3: We recommend that the Director, Defense Logistics Agency, and the Commander, Army Materiel Command, reconcile the Defense Depot Region West, Sharpe Facility's and inventory managers' receipt transactions for materiel returns, process all unordered materiel transactions, and determine why the transactions were not recorded on the wholesale managers' records.

DLA COMMENTS: DLA Concurs with recommendation to reconcile receipt transactions for materiel returns and process all unrecorded materiel transactions.

As uncovered in this audit, discrepancies caused by unprocessed transactions existed between the records of Sharpe Facility and inventory managers. To ensure a thorough reconciliation, Sharpe Facility undertook an ambitious program of performing wall-to-wall location surveys from February through April 1992. This location survey program (see Attachment No. 2) allowed Sharpe Facility to identify and correct any inaccuracies in its locator file records.

With a reliable custodial file now in place, Sharpe Facility is currently conducting a location reconciliation audit with inventory managers, which is scheduled for completion on October 2, 1992. Because the location reconciliation audit requires research and physical inventories of record imbalances, the depot's and inventory managers' records will be reconciled using standard inventory procedures within DoD established timeframes. Any unrecorded transactions not corrected previously will be processed by following this course of action.

Nonconcur with the recommendation to determine why the transactions were not recorded on the wholesale managers' records.

It is not likely that DLA would be more successful than the auditors in determining why the 5.529 DOCUMENT IDENTIFIER CODE D6Z transactions were not recorded on the wholesale managers' records. At this point, it would require monumental expenditure of labor, time, and dollars to identify transactions that have been or soon will be reconciled through the program of location surveys, location reconciliation audit, and physical inventories. Furthermore, if the problem was caused by the new completed conversion data system (as suspected by the auditors), the cost of re-examining the problem would be prohibitive.

DISPOSITION:

Action is ongoing. Estimated Completion Date: Not Yet Determined. Estimate will depend upon the volume of physical inventories required from the location reconciliation audit run on October 2, 1992. After that time, estimated completion date can be

**Management Comments from the Defense Logistics Agency Chief, Internal Review
Division, Office of Comptroller**

provided.

Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
- Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Shelly Feeley, DLA-OWI, x77244, 11 & 28 Sep 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

25

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ENCLOSURE 10

REPORT DISTRIBUTION

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Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense (Management Systems)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Installations and Logistics)
Inspector General, Department of the Army
Auditor General, U.S. Army Audit Agency
Army Materiel Command

Department of the Navy

Auditor General, Naval Audit Service

Department of the Air Force

Air Force Audit Agency

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House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations